Profiling Chinese agribusiness (beef) investment in Australia

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PROFILING CHINESE AGRIBUSINESS (BEEF) INVESTMENT IN AUSTRALIA

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Department of Agriculture and Food
GOVERNMENT OF WESTERN AUSTRALIA
ROYALTIES FOR REGIONS
VC GROUP
中汇唯信

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1. Executive Summary

Chinese investment in the Australian agribusiness sector seems to attract much media and community interest. At times it can be difficult to decipher what is really happening.

- *What transactions have been concluded?*
- *What was the motivation?*
- *What is next?*

These are questions that seem to be topics of much debate.

This report "**Profiling Chinese Agribusiness (Beef) Investment in Australia**" provides practical insight into Chinese investment into Australian agribusiness and in particular the beef sector.

The most obvious driver of Chinese investment into the Australian beef sector is clear - it is an opportunity to address the "beef deficit" in China - where domestic consumption exceeds domestic supply and Australia represents a favorable destination given its low sovereign risk, strong export focus and clean/green produce.

Many discussions with Chinese investors and stakeholders in the market reveal a less obvious driver. Financial investors now see investing in food and beverage as a "2nd round wealth creation" opportunity.

Whilst there are examples of integrated supply chain investments in some sectors such as horticulture, no examples of successful integrated beef supply chain investment have been identified to-date. Our research does confirm however that beef investment is occurring at all different stages of the supply chain including farmland, processing and marketing and distribution, with a number of transactions completed.

The transactions that have occurred over recent years clearly indicate there is room for considerable improvement, with the key area being "investment readiness" at both the Chinese and Australian ends.

Anecdotal evidence suggests interest from Chinese investors, both strategic and financial, in Australian agribusiness will continue to increase in the foreseeable future.

There is a clear opportunity for Department of Agriculture and Food, Western Australia (DAFWA) to benefit from this trend by learning from the experience to date and generating new initiatives to assist Chinese investors navigate the beef supply chain. For example, DAFWA could:

- Redefine the investment experience for Chinese investors by generating relevant content to support investment decisions and present it as part of a "one stop shop" investment portal – "oneWAagri";
- Be the catalyst for new collaborative supply models that enable integrated supply, where an investor can secure beef off take without the need to invest in land – "WAmySupply".

Chinese investors typically seek government guidance when considering new initiatives - this is a dynamic that DAFWA need to be mindful of as they set about further developing the WA beef sector. The opportunities and strategies to promote WA are outlined in section 8 - Investment Pathways.

There is a clear synergy between Chinese investment interest and the capabilities of the WA beef industry.

It is time to get moving and realise the opportunity.

2. Report Methodology

This report is designed to provide DAFWA with a picture of Chinese investment in Australian agriculture, with a specific focus on the beef sector.

Identifying relevant investors, how and why they make cross border agricultural investments have been explored and analysed and insights distilled through real life case studies and various other methods including:

- *Personal interviews with investors and stakeholders*
- *Discussions with government and industry bodies*
- *VC Group's day to day experience in the industry over the last five years*
- *Desktop research*
- *Literature and industry analysis*
- *VC Group's analysis and synthesis*

With regard to potential quantitative and qualitative analysis to determine the value of security of beef supply from a Chinese investor perspective, a high level assessment is provided as a precursor to a potential in-depth study of the subject.

Case study and interview methodology

Insights from a number of case studies and interviews are central to the findings presented in this profiling report. The identity and data specific to individual case study companies and interviewees is sensitive and confidential and as such this report does not disclose either the identity of the companies or any information specific to these companies and interviewees. The methodology adopted in this report is to synthesise the findings from the case studies and interviews along with the other data sources noted above, and present insights from them. The interviewees all requested confidentiality which enabled them to speak more openly and enabled significantly greater insights.

In order to select the most appropriate case studies to provide useful and relevant insight, 20 field interviews were conducted, and 12 case study targets were considered before choosing a shortlist of 5 case studies for detailed analysis. Criteria used for selecting the final 5 include:

- *Focus on beef*
- *Coverage of different stages of supply chain*
- *Depth of information available*
- *Completed investment (i.e. prospective investments were excluded)*
- *Coverage of all investor types (i.e. strategic vs. financial; State Owned Enterprises vs. Privately Owned Enterprises)*

In the absence of a fully integrated beef supply chain investment from a Chinese investor we have selected 4 beef case studies (2 in farming operations, 1 in processing and 1 in trade and distribution) to cover all stages of the supply chain. To highlight a fully integrated supply chain case study, we have included a 5th case study which is in the horticulture sector.

Case studies were developed out of formal interviews and personal discussions. Interviews were conducted by a minimum of two VC Group team members (including a Director at each interview). A pre-defined questionnaire guide was used to gain consistency in the topic areas and questions, whilst at the same time allowing for flexibility during the interview process to explore different areas in greater or lesser depth as required.

The output of the interviews was then collated and distilled to compile the case studies along with key insights. No views and/or comments were imputed by VC Group into information presented from case studies & interviewees, except for the last section – "Views, Lessons & Concerns"- where VC Group has summarised a view based on our understanding.

3. Overview - Chinese Investment into Australian Agriculture

a. Overview

Table 1 below is a summary outline of Chinese direct investment in Australian agribusiness from 2011. Only transactions greater than $10m have been included. Whilst it may not be reflected in the total dollars invested, due to deal size, there is considerable interest in the protein sectors of beef and dairy.

Anecdotal evidence suggests an ever-increasing Chinese interest in the agricultural sector however the ratio of deals completed to enquiry level is low.

The China-Australia Free Trade Agreement (ChAFTA) has further fuelled interest and may create significant trade and investment opportunities for the Australian agriculture sector.

Table 1: Selected Chinese Investment into Australian Agriculture

Time	Company Name	Industry	Target	Location	Value	Equity
2011	COFCO	Sugar	Tully Sugar	QLD	$146 m	100%
2011	Bright Food Group	Food	Manassen Foods	NSW	$530 m	75%
2011	Chinatex Australia	Food	Dairy Honey Beef	NZ NZ Aust		Supply Chain setup
2012	Shandong Ruyi Group	Cotton	Cubbie Cotton Group	QLD	$277 m	80%
2012	Beidahuang Group	Cropping	Dennis Joyce's family cropping companies	WA	$23 m	100%
2012 2015	Tianma Bearing Co	Winery Beef	Ferngrove Wollogorang and Wentworth station	WA NT	$15.5 m $47 m	100% 100%
2012	Shanghai Zhongfu Group	Sugar	Ord-East Kimberley Expansion Project	WA	$700 m	Lease and develop land for sugar cane
2013	New Hope Investment Fund	Beef Processing	Kilcoy Pastoral Company	QLD	$60 m	Majority
2013	Chevalier Group	Fruit	Moraitis Group	NSW		70%
2014	Rifa Group	Grazing	Blackwood	VIC	$27 m	100%
2014	Goldin Group	Horse breeding	Lindsey Park	SA		100%
2014	1847 wine Co	Winery	Chateau Yaldara	SA	$15 m	100%
2014	Hong Kong Yingda Investment Co	Winery	Hollick Wines	SA		Majority
2014	Hailiang Group	Grazing Grazing	Hollymount Station Mount Driven	QLD QLD	$31.5 m $10 m	100% 100%
2014	China National Machinery Industry Corporation	Dairy processing	Greenfield Project DAIRY ON HOLD REPOSITIONING TO WAGYU	QLD	$500 m	Joint Venture
2014	Foresun Group	Beef processing	Tabro Meats	VIC	$25 m	100%
2014	Heilongjiang Grand Farm Group	Meat processing	V & V Walsh	WA		Supply Agreement
2015	Dashang Group	Grazing	Glenrock Station	NSW	Circa $45 m	100%

Source: all data collected from public available sources

Investments undertaken to date confirm beef as a hot focus area. Whether it is farmland acquisition or boxed frozen products for export to China, Chinese investors have shown a strong appetite for the Australian beef industry. The agreement on animal health certificate requirements (July 2015) between Australia and China for live export will give unprecedented market access to the Australian export industry. Currently Australian live exports contribute $1.8 billion to the Australia economy per year and this is expected to double within the next decade.[1]

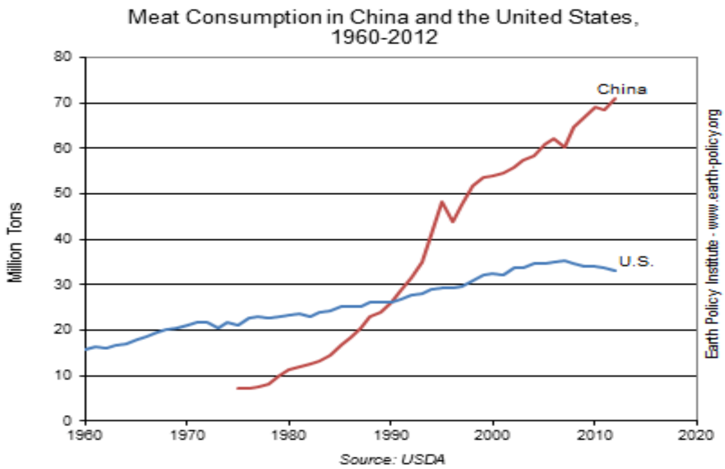
[1] *http://www.cattlecouncil.com.au/live-exports*

b. Drivers for Beef Investment

i. Change in dietary structure

There is a well-documented shift towards higher protein consumption in China and as shown in Figure 1 below China's demand for meat has increased rapidly over the past few decades. This shift in dietary structure now sees more than a quarter of all the meat produced in the world consumed in China.

Figure: 1 Meat Consumption in China and US



ii. Domestic demand outstrips domestic supply

The demand for quality food, driven largely by the continued emergence of the Chinese middle class, continues to increase. China is limited by available land for cattle production and the gap between domestic production and domestic consumption continues to grow as seen below in Table 2. This creates the need for international supply solutions and Australia, as a major agricultural destination and beef exporter, is a key target to address the beef deficit.

Table 2: China Beef & Veal Supply and Demand Summary Table (1,000 MT)

Year	2011	2012	2013	2014
Domestic Production	6475	6623	6,730	6,890
Domestic Consumption	6449	6680	7,052	7,297
Surplus/(Deficit)	26	(57)	(322)	(407)

Source: Livestock and Poultry: World Markets and Trades April 2015, USDA

In order to address the urgent market deficit for beef, China over the last few years imported large quantities of beef. In 2014, China officially imported 298,000 tonnes of beef from Australia, Uruguay, NZ, Argentina, Canada and Costa Rica. Beef imported from other sources was estimated at an additional 930,000 tonnes, totaling around 1.2 million tonnes.[2] Of the total officially imported beef market in 2014, Australia accounted for 45%, followed by Uruguay and New Zealand.[3]

[2] *Editor Note: this number is in line with the views of Chinese industry players interviewed during this project.*
3 *Market Snapshot-China-May 2015, MLA*

iii. Food safety is top priority

A number of high profile food safety scandals have aroused food safety concerns amongst Chinese consumers. Over the past decade there are a vast number of documented examples where contamination and/or substitution at different points along the food chain have resulted in everything from minor illness to deaths in China.

Against this background it is easy to understand why so many in the Chinese community talk about the distinct lack of trust in domestically produced beef. It is this lack of trust that further fuels the need to search for an offshore beef solution. When it comes to the search for safe food, Australia with its reputation for "clean and green" produce, is at the forefront of thinking and therefore ideally placed to capitalise.

iv. 2nd round wealth creation

Our discussions with Chinese investors and stakeholders in the market reveal a less obvious driver. Many Chinese investors see investing in food and beverage as a "2nd round wealth creation" opportunity. They see the 1st round was on the back of the rapid urbanisation of China and now see feeding a wealthier and more discerning population as a long-term investment opportunity.

Hence a number of investors have directly acquired a part of the supply chain (e.g. acquire land assets as part of a "buy and hold" strategy) with a view to working out how they complete the supply chain to service the Chinese demand later on.

4. Case Studies

There is no single example of an end-to-end beef supply chain investment by Chinese investors in Australia. This being the case, this report synthesised insights from four individual Chinese company case studies covering the different stages of the beef supply chain. To provide insight into a more integrated supply chain case study, the report integrates a 5th case study on Chinese investment in the horticulture sector for an integrated supply chain transaction.

Criteria used for selecting the final 5 include:

- *Focus on beef*
- *Coverage of different stages of supply chain*
- *Depth of information available*
- *Completed investment (i.e. prospective investments were excluded)*
- *Coverage of all investor types (i.e. strategic vs. financial; State Owned Enterprises vs. Privately Owned Enterprises)*

Table 3: Summary of Case Studies used in this report

Case Studies	Ownership	Type	Sector	Stage of Supply Chain
1. Company 1 (beef)	POE	Strategic	Beef	Multiple farms
2. Company 2 (beef)	POE	Financial	Beef	Multiple farms
3. Company 3 (beef)	POE	Strategic	Beef	Processing
4. Company 4 (beef)	SOE	Strategic	Beef and other	Marketing and distribution Virtual supply chain
5. Company 5 (Horticulture)	POE	Financial	Native herbs	Integrated supply chain

5. Key Learning

a. Investor Profiles

i. Strategic investors vs. financial investors

According to investment objectives, Chinese investors in agriculture can be characterised into two different groups:

- Strategic investors; and
- Financial investors.

Typical strategic investors are already industry players in China, however due to various reasons (shortage of supply, diversification from pork/chicken to beef, etc.) they are looking at building an "international supply chain" where products are produced and processed in Australia and distributed through the investor's own channels in China.

Financial investors come from a variety of backgrounds (e.g. property, manufacturing, engineering) and are looking to drive the next round of wealth creation and see food and beverage as the sector to target. They are interested in asset aggregation where capital is invested to consolidate assets, improve productivity and increase value of the land over the longer term.

Currently, no Chinese beef investor has an end-to-end supply chain investment in Australia. We see that both strategic and financial investors have an interest to further develop or complete the beef supply chain - albeit for different reasons. The strategic investors need it to secure supply and the financial investors need it to capture margin and drive investment performance.

ii. Privately Owned Enterprises vs. State Owned Enterprises

In terms of ownership background the investors can be categorised as:

- Privately Owned Enterprises ("POEs"); or
- State Owned Enterprises ("SOEs").

Typically SOEs will have a middle management layer between buyer and seller and therefore have a longer decision cycle. Typical POEs will have everything agreed and executed directly with the owner/founder him/herself. This presents a clear advantage over SOEs for its fast decision making process, less uncertainty and relatively shorter period of execution.

b. The Matter of Scale

Due to the sheer size of the Chinese market, Chinese investors often come to Australia with a wish list for Australian beef way beyond current supply capability. It is not uncommon to hear from an investor with a 3-5 year plan to secure supply of say 300,000 head of cattle per annum; and the minimum carrying capacity for their first farm investment of no fewer than 10,000 head.

It takes time and trial and error for potential investors to understand and realise what options exist to achieve the scale require.

c. Frame of Reference

When it comes to investing in Australian agribusiness Chinese investors are relying on two key frames of reference.

Asset price – A Chinese investor often benchmarks against Chinese experience. For example the price of a rural land acquisition in Australia is compared against rural land in China. Most usually Australian freehold assets are viewed as much cheaper than Chinese leasehold assets. This comparison usually ends up with Chinese investors paying a price premium for the asset, and then later on struggling to get a satisfactory return on investment, which in turn reduces the likelihood of further investment.

Cost of human capital– when it comes to engaging professional advice to review and acquire, or hiring the right people to manage assets, Chinese investors often hesitate and look to buy a cheap option which in turn leads to sub-optimal investment performance.. Once again this diminishes the likelihood of further investment.

d. Investment Readiness

Successful Chinese investment in Australian agriculture requires a lot more than just capital – developing and embedding the right network, knowledge and experience, good business practice, cultural awareness and effective communication with local stakeholders, are all vital elements in successfully executing agribusiness investment in Australia.

It is our view that Chinese investors in general terms have plenty of capital but have a long way to go in the other areas that ultimately drive long-term investment performance.

On the opposite side of the investment equation is the Australian vendor. The structure of ownership of Australian agricultural assets is essentially "family owned", which can mean Australian vendors do not have transaction experience and are often not "investment ready" at the time they go to market.

This is evidenced by inadequately presented project information, outdated management systems, emotion-based valuation methodologies, and an inability to build effective understanding and trust-based relationships with Chinese investors. All these factors lead to frustration and poor execution.

Bridging the gap between two parties, where at times neither may be investment ready, has proved challenging for the industry and perhaps is one explanation why there is so much interest in transactions yet little conversion.

Government bodies, industry associations and third party service providers who add value by providing relevant data and expertise can play a critical role in bridging the gaps, through effective collaboration..

e. Management Challenges

In general terms Chinese investors acknowledge their lack of capability and confidence in managing the acquired assets by themselves – both in farms or agribusinesses.

The general trend is a willingness to retain existing management or find a local to manage the acquired assets and send a couple of their own key personnel to supervise. In our case studies, one company retained the existing farm manager for daily farm operations; another kept the original management team who work under a locally hired Chinese General Manager. A third retained the owner operator to manage the business and invited him to help achieve the longer term strategic plan. One other company interviewed employed a high profile Australian executive to head up their Australian operations.

In the short history of investment in Australian agribusiness, management challenges have already been raised by Chinese investors. Amongst those challenges, three stand out as most prominent:

1. Finding ways to make investments profitable;
2. Minimising the chances of surprise from unexpected or unforeseen government rules/regulations and requirements of various stakeholder groups; and
3. Building a sustainable management model and team to ensure long term success.

Our observation is that these management challenges arise due to poor alignment between owners and operators. Differences in cultural backgrounds and business practices make alignment a very challenging exercise. However the answer to overcoming these challenges lies in both sides being aware there are a series of skills (beyond simple language skills) that need to be present to achieve understanding and trust, which ultimately underpin delivering business alignment.

6. Stakeholder Analysis

a. Chinese Government Bodies

The core strategy of Chinese foreign trade and economic cooperation is to promote Chinese outbound investment. A close relationship between China and Australia exists and is evidenced by the recent signing of the Free Trade Agreement (ChAFTA) and live cattle export protocol.

Chinese government bodies receive regular enquiries from Chinese inbound investors looking for direction to industry contacts and therefore play a very important early stage role in facilitating introductions. Further, they are often consulted as a "sounding board" throughout a transaction and if any problems may arise. They are an important relationship for DAFWA to establish and maintain over time.

The key Chinese Government bodies in Australia include:

The Chinese Embassy in Australia

The Economic & Commercial Counsellor's Office of the Embassy of the People's Republic of China in Australia. It is the main conduit between China's Ministry of Commerce and Australia's Department of Foreign Affairs and Trade.

In addition to liaison and coordination of investment and trade affairs at national/federal level, the Canberra based Chinese Embassy also looks after Chinese investments in Australian Capital Territory, South Australia and Northern Territory at state level.

Consulate General Offices

There are four state based Chinese Consulate General offices in Sydney, Melbourne, Perth and Brisbane. Each office has a dedicated Economic & Commerce office to coordinate trade and investment affairs between the two countries in their own state. One exception to this is Melbourne office, which also looks after Tasmania.

b. Chinese Banks

The local presence of Chinese banks is largely driven by the increasing number of Chinese investors coming to Australia. Over the course of the last decade, all the major Chinese state owned commercial banks have established branches in Australia, with more Chinese banks, state owned and private likely to follow.

Chinese banks receive enquiries from Chinese investors looking to invest overseas and who are often clients of the banks back in China. The banks have a commercial motive to help the investors as they are usually looking to extend debt facilities to them for prospective deals.

In general terms the Chinese banks operating in Australia are heavily dependent on their Energy and Resources sector customers. Many of the Chinese banks in Australia are looking to diversify their loan books and want to include agriculture, as driven by their clients' needs. They acknowledge their lack of experience and exposure to the Australian agribusiness sector and are looking to improve on this.

A brief summary of the Chinese banks operating in Australia is presented in Table 5 below, followed by an example of one bank's finance strategy for Australian agribusiness, Industrial & Commercial Bank of China (Figure 6).

Table 5: A Summary of the Chinese Banks Operating in Australia

Banks	Tier 1 Capital $m USD (at 2015)	Australia offices
Industrial & Commercial Bank of China (ICBC)	248,608	Sydney Melbourne Brisbane Perth
China Construction Bank (CCB)	202,119	Sydney Melbourne Brisbane
Bank of China (BOC)	184,231	Sydney Melbourne Brisbane Perth
Agricultural Bank of China (ABC)	167,699	Sydney
Bank of Communications (BOComm)	68,333	Sydney Brisbane
China Development Bank (CDB)	Policy bank	Sydney based Australia working group

A brief overview of each bank can be found in the appendices.

c. Industry Related Agencies

China Certification & Inspection Group

China Certification & Inspection Group (CCIC) is an independent third party certification and inspection organisation dedicated to providing inspection, verification, certification and testing services, with accreditation by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ), Certification and Accreditation Administration of the People's Republic of China (CNCA) and China National Accreditation Service for Conformity Assessment (CNAS).[4] CCIC has a long established office in Sydney.

CCIC is a key player in the negotiation and execution of Australia China live cattle export protocol.

China Council for the Promotion of International Trade

Established in May 1952, China Council for the Promotion of International Trade (CCPIT) is the most important and the largest institution for the promotion of foreign trade in China (http://www.bizchinanow.com). CCPIT has a long established office in Sydney. CCPIT Australia represents an access point for Chinese interest in Australian beef.

[4] *http://www.ccic.com/web/static/articles/catalog_2c94ec8a296299c30129629eee160001/2012-09-04/article_ff8080812a89c0a5012b299fa0e201a6/ff8080812a89c0a5012b299fa0e201a6.html*

7. Relevance and suitability - Chinese Investment in the WA Beef Industry

a. Relevance

The WA beef sector clearly has a high degree of relevance to the Chinese market. Key relevant factors include:

- *WA covers both northern and southern production systems*
- *Ability to transfer animals between systems*
- *Can cover all product requirements from boxed beef to live exports*
- *WA has a proximity advantage over the eastern states*

WA can further increase its relevance by addressing some of the key issues faced by Chinese investors in navigating the supply chain. These are outlined in **Section 8. Investment Pathways.**

b. Suitability

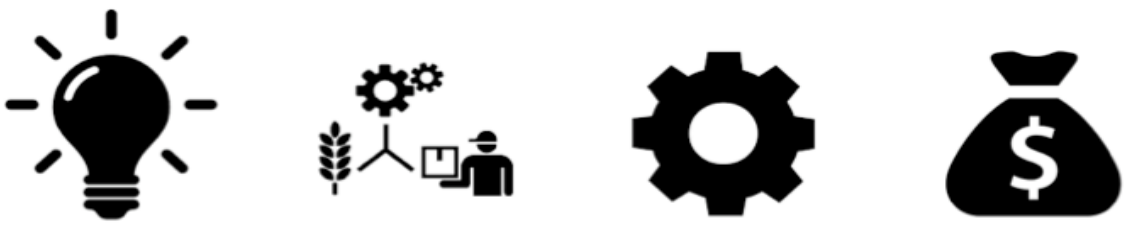
Further consideration needs to be given to:

- *How WA completes the supply chain for Chinese off takers (particularly processing capability)*
- *How to market WA beef to Chinese investors who are focused on East Coast for beef; and*
- *How WA might explore a collaborative approach with CCIC to promote WA beef.*

8. Investment Pathways

When considering investment pathways into the beef supply chain the following four aspects should be considered (Figure 7):

Figure 7: Investment Pathways



Access to Opportunity

- *Agents*
  - *Real estate agents*
  - *Investment banks*
  - *Chinese diaspora*
- *Advisers*
  - *Accountants*
  - *Lawyers*
  - *Industry specialists*
- *Influencers*
  - *Chinese and Aust banks*
  - *Government and associations*
  - *Chinese government in Australia*
- *DIY*
  - *Media*
  - *Chinese Diaspora*

Supply Chain Stage

- *Farms and feedlotting*
- *Processing*
- *Sales and marketing*
- *Distribution*

Method

- *Solo*
- *Partner*
  - *International*
  - *Domestic*
- *Others*
  - *Funds*
  - *New Models*
    Virtual Supply Chain
    Collaborative supply chain (e.g. Co-Op from "birth to beef in a box")

Funding

- *Debt*
- *Equity*

Structures

The most common inbound investment structures are cited as follows:

State Owned Enterprises (SOEs) are unlikely to have an investment partner and typically set up a wholly owned subsidiary, usually a proprietary company limited by shares ("Pty Ltd").

Privately Owned Enterprises (POEs) are more likely to have other investors in a transaction and typically look at setting up local Australian entities. Typically land assets would be held in a non-trading entity (Pty Ltd or trust structure) and the operations of a business under a different Pty Ltd entity.

Further, it is not unusual for a POE to have a structure where the Australian entity is owned by a parent company in Singapore or Hong Kong.

The Australian entity of course must appoint an Australian resident director.

a. Observations and Opportunities

i. Observations

Drawing from day-to-day experience and the specific field interviews conducted for this report we make the following observations in relation to investment pathways and associated opportunities:

1) Absence of adviser

Unlike many other foreign investors Chinese investors often present without a professional adviser representing them. The landscape is changing, albeit slowly, and Chinese investors are starting to realise they do need specific agribusiness advice to identify, qualify and fully assess investment opportunities.

When looking at the investment pathways map (figure 7) the most common initial connection points for Chinese investors are:

- *DIY – self identified opportunities (via print and online media)*
- *Agents – Chinese diaspora then Real Estate Agents*
- *Influencers – Banks, Chinese Government*
- *Advisers – Accountants, Lawyers*

2) Projects before strategy

Chinese investors are most often “project led” rather than “strategy led”. In other words they look for projects to review first and foremost. Rather than considering, developing and documenting their strategy and then looking at what projects might fit their strategy.

3) Isolated direct asset purchases

The significant investments to date have been for direct asset purchases. Chinese investors have not been able to piece together the supply chain and as such we have not seen a completed end-to-end supply chain investment (in beef).

The investments fall into the following categories:

- *Farms or feedlots*
- *Processing facilities*
- *Sales & marketing or wholesaling businesses*

4) Buy and hold, then fill in the gaps

We classify the significant purchases to date as part of a “buy and hold” strategy where:

- *The purchaser is aware of the growing interest in protein supply*
- *Australia is a recognised reliable, clean supplier*
- *Australia is a safe country to invest in*
- *The investor has an interest however no clear path or plan of how to participate in the sector other than through the sale of cattle off farm*

5) Perception vs. reality

There is often a discrepancy between Chinese expectations and reality. For example investors at times look for:

- *Sectors beyond Australia’s best export capability (for example rice and corn)*
- *Greater quantities than Australia has to offer (particularly in beef sector whether for boxed cuts or live export); and*
- *Inflated expectations on investment returns.*

6) Inadequate due diligence

Chinese investors into Australian agribusiness are often new to Australia and/or new to agribusiness. When compared to their “home” sectors (e.g. property) information around Australian agribusinesses is fragmented and influenced by a variety of issues (e.g. climate, ownership structure, market performance etc), which make assessment of likely future performance challenging. Furthermore, Chinese investors struggle to synthesise the available data which results in sub-optimal investment and management decisions and thereby impacting on their desire to continue to invest.

ii. Opportunities

1) Demonstrate integration

Identify individual asset owners along the supply chain and demonstrate need to be integrated to create an effective supply solution. Chinese investors should consider the purchase and/or development of assets to complement each other along the supply chain – they will however need to be assisted through this process. Leading this process represents an opportunity to engage much more proactively and effectively.

2) Be a catalyst for new models

DAFWA can act as a catalyst for consideration of new models.

Co-operative models

For much of the 20th century, farmers used co-operatives to jointly collaborate and market their product. Many of these co-operatives were established under favourable government regulated markets and accumulated significant assets. As the markets changed and governments removed their regulatory powers, many of the co-operatives were sold with significant benefits being shared amongst their members.

The history of co-operatives in agriculture is well documented. Many co-operatives still operate very successfully (e.g. Blueberry, Murray Goulburn, Norco). The primary benefit of co-operatives to farmers, in our view, is their capacity to jointly market product.

In the beef sector, where animal performance and seasonal variation make it difficult to determine exactly when an animal will be ready for market, groups of farmers jointly marketing their product can provide a much more consistent supply environment for international buyers. Groups of WA farmers could create co-ops and form direct relationships with Chinese partners. This enables the Chinese partners to achieve greater certainty of supply without incurring the operational responsibility for the farm. An example of an effective co-op is attached in **Appendix 3 – "Farmers' blues lessen as co-ops take off".**

Collaborative supply chain models

One of the greatest challenges facing farmers is cash flow. Farmers tend to have significant financial resources tied up in land assets with limited working capital reserves. Chinese buyers of cattle want the beef offtake. In the past they either became a buyer in the spot market or had to buy the land asset to access regular supplies.

The advent of new technology now allows the owners of cattle to remotely monitor their herds, at all stages of the supply chain and to work with farmers to build collaborative supply chains. These supply chains are the result of:

- *Increased demand for beef*
- *The availability of underutilized land*
- *Farmers looking for new marketing solutions and technology*

As an example, a Chinese party could purchase all, or a portion of, their cattle requirements and run them on selected properties paying the farmers an agistment fee, or a weight gain fee. This removes the need for land ownership, retains the skills of the current landowners and provides a firm view of future supply.

To further support this concept a web based front end "WAmySupply" could be developed to enable Chinese investors/off takers to forecast volume, and manage their supply from "birth to box", including a service to brand and package product according to client specification.

There are numerous benefits in this approach:

- *Removes the need for land ownership change*
- *Retains skills of current farmers*
- *Highly effective use of capital*
- *Provides easy web interface for Chinese to manage beef supply requirements*
- *Enhances trust in supply chain via end to end traceability via dedicated "WAmySupply" website*

Note: We are suggesting Government can be a catalyst on models such as these and allow private business to run such schemes.

3) Redefine the investment experience

Make WA more appealing and easy to do business with by redefining the investment experience. Build a “one-stop shop” WA agribusiness web portal (“oneWAagri”) to market WA (this can be at multi levels – State/Industry/Sector). Essentially, “oneWAagri” would be a “marketing and customer service” platform that redefines the inbound investment experience. As an example it could include:

- *List of contacts (government and private service providers)*
- *Information on the supply chain*
- *Process maps*
- *Regional information*
- *Support services – legal, accounting, banking*
- *Benefits of focusing on WA beef*
- *How to guides*
- *Guided immigration advice*
- *Provision of application status (e.g. visa, FIRB)*
- *Linked to “WAmySupply”*

The benefits of creating a “oneWAagri” environment include:

- *Low cost*
- *Easily controlled and maintained*
- *Create investor “stickiness” and ongoing dialogue*
- *Opportunity to collaborate and co-develop with provincial Chinese government*

4) Create an agenda that addresses often stated needs

Don't wait to respond, instead take a relevant agenda to Chinese investors that demonstrates an ability for the Chinese beef investor to:

- *“Scale up” volumes in WA*
- *Access the entire supply chain for beef production in WA*
- *Access all required beef management skills (whether this be on-farm or off-farm); and*
- *Access both established and greenfield projects.*

b. Promotion Strategies

Taking into consideration the potential pathways and opportunities there are a number of valid promotion strategies for DAFWA to consider. They are:

i. Provide Intellectual Capital

Generate content for "oneWAagri" via the provision of information to potential investors that make investment decisions and supporting processes easier.

WA specific data

- *Sector specific data (climate, stocking rates, input costs, best practice management, product specifics)*
- *Clear process maps (approvals, supply chains)*
- *Integrated access to additional services (e.g. applications to other Departments for immigration, FIRB)*
- *Integrated support services*
- *Project identification (pre-approved sites, Government endorsed projects)*
- *Create a new category that plays to Chinese inclination toward organic (e.g. Rangelands beef)*

Unlike many other foreign investors, Chinese investors have a historical bias that has them look to Government for support. Provision of that support via "oneWAagri" will assist WA in attracting and converting interest to action.

ii. Connect with Key Influencers

In broad terms Chinese businesses/individual investors pay a lot more respect to government officials/policies/initiatives than their Australian counterparts. If an initiative is endorsed and supported by the government (Chinese or Australian, or even better, both) it would provide impetus to investors to make business decisions. This background provides a solid reason for the WA government to take a proactive stance in attracting Chinese investments into WA.

Chinese investors regularly connect with the Chinese government agencies and Chinese Banks based in Australia for guidance when entering the market. WA should consider a specific program to highlight the benefits of WA Beef by engaging on a regular basis with these key influencers in Australia and also in China.

We do not recommend a "one-off blitz", we recommend a program that is always on the to-do list where WA are connecting with the key influencers.

Key targets:

- *Chinese banks*
- *Ministry of Commerce People's Republic of China（MOFCOM）*
- *China Chamber of Commerce of Foodstuffs and Native Produce (CFNA)*
- *China Certification and Inspection Group (CCIC)*
- *WA Government representative offices in China*
- *Austrade*

Ideas to connect around should not be difficult and forums like roadshows and seminars and webinars (in conjunction with the banks and their clients) will drive great connectivity and relationships.

For example:

- *Northern Beef Futures and "China Bank" roadshow across agreed Tier 1 and 2 cities;*
- *DAFWA and CICC on health of WA Cattle Herd – create this collaboration and then promote the outcomes to specific industry targets in Chinese market;*
- *DAFWA and Chinese Government co-develop the "oneWAagri" portal.*

Given the fact that many Chinese local/provincial governments are trying hard to promote economic cooperation between China and Australia, it would make a lot of sense to work in cooperation with a provincial government to promote outbound investment into WA and in return beef trade into China. The upside for this initiative is to move in a faster, more targeted and coordinated fashion; however the choice of who to work with needs to be carefully considered.

iii. Promote Alternative Models

Promote the consideration and adoption of new models amongst target beef operators in WA. New beef models (e.g. Co-operatives and Collaborative Supply Chain) need vision and energy as a starting point, followed up by capital and partners. WA should be the driving force behind the provision of the vision and energy and have a clear plan to engage with industry participants to attract capital and clear bottlenecks along the way.

9. Qualitative and Quantitative Methodology

For many decades now China has been the "world's factory". Rapid GDP growth and wealth creation are the obvious upsides. The clear and present downside is a compromised environment where polluted lands and waterways compromise the quality of food production and therefore the health and vitality of Chinese families. This is the background that drives the Chinese consumer to search for clean, green and safe produce.

Against this background it is easy to see why "organic" holds such a strong and growing position in the Chinese mind. It is a commonly held belief amongst Chinese consumers that "if its not organic, its not safe". Compare this to the way many Australian consumers view organic as "niche" or "trendy".

The global organic market is estimated at $91b, of which Australia is $1.37b and China is $8b.[5] We see China's demand for organic increasing rapidly, and/or opportunity for WA producers to market their product as having similar qualities to "organic".

When it comes to Australian beef it is clear that Chinese consumers:

- *Demand clean/green*
- *Demand food safety (which highlights importance of traceability)*
- *Appreciate organic (and don't view it as "niche")*
- *Like expensive cuts for themselves but when sourcing supply are cost conscious (impacts on how they view Southern and Northern production systems)*
- *Prefer Australian Grass fed beef over Grain fed (as demonstrated in Table 6 below)*

The table below shows statistics of beef exports for the last two years on grass fed and grain fed.

Table 6: Australia Beef Exports to China, Grass fed vs. Grain fed (1,000 tonnes swt)

Year	Grass Fed	% Total	Grain Fed	% Total	Total
2014	111,143	89%	13,443	11%	**124,586**
2013	134,301	87%	20,531	13%	**154,832**

Source: Market Snapshot-China-May 2015, MLA

One potential reason for this heavy bias towards Grass Fed beef could be that grass fed beef may be perceived as "green and natural" in the mind of the Chinese consumer and is therefore much closer to "organic" product than grain fed.

A deeper quantitative look at this subject together with valuing security of supply could be considered by DAFWA.

[5] *http://www.stockjournal.com.au/news/agriculture/general/news/aust-organics-shine-in-china/2734167.aspx?storypage=0*

10. Conclusion

Anecdotal evidence suggests interest from Chinese investors, both strategic and financial, in Australian agribusiness will continue to increase in the foreseeable future. More specifically, Chinese investors are turning to the Australian beef sector in order to help address the Chinese beef deficit.

Many Chinese industry players have made their strategic move at different stages along the beef supply chain in Australia. Other Chinese investors have started a buy and hold strategy around land based assets. Most interestingly none appears to have secured an integrated beef supply chain.

Gaps between Chinese interest and successful investment have been identified in this report. There are many areas where government can play a proactive role to facilitate Chinese investment into WA agriculture.

The strengths of the WA beef sector are clear and relevant to Chinese beef investors. WA has the ability to:

- *Cover both northern and southern production systems*
- *Transfer animals between systems*
- *Cover all product requirements from boxed beef to live exports*
- *Market its proximity advantage over the eastern states*
- *Create a product appeal based on the Chinese bias for "organic" (e.g. define a new category 'rangelands')*

There is however much work to be done for WA particularly as Chinese investors have shown a tendency for eastern states as the preferred beef destination.

We recommend that DAFWA consider a regular program of connecting with investors as well as key influencers (e.g. Chinese Banks and Government) around WA beef capability. This is the "polar opposite" of hosting delegations and reactively responding to random enquiries.

A very deliberate strategy is required to firstly generate topics of discussion to demonstrate the qualities of WA as a beef investment destination and secondly to generate follow on initiatives (e.g. oneWAagri, WAmySupply) to promote specific and meaningful engagement with investors and influencers.

11. Appendices

a. Appendix 1 - Chinese banking overview

i. Industrial & Commercial Bank of China

Industrial and Commercial Bank of China Ltd. ("ICBC") is a Chinese multinational banking company, and the largest bank in the world by total assets and market capitalization. The bank has its presence in six continents, and its overseas network has expanded to 41 countries and regions. In 2014, the Bank was named the "Global Bank of the Year" by The Banker, ranked the first place among the Top 1000 World Banks by the Banker and the largest enterprise in the world among the Global 2000 listed by the US magazine Forbes for the 2nd consecutive year.[6]

In 2008, the Australian Prudential Regulation Authority ("APRA") approved ICBC as a foreign authorized deposit taking institution (ADI) allowing the branch to conduct banking business in Australia. Currently ICBC has branches in Sydney, Perth, Melbourne, and Brisbane.[7]

ii. China Construction Bank

China Construction Bank (CCB) is a leading commercial bank in China providing a comprehensive range of commercial banking products and services. At the end of June 2013, the market capitalisation of the Bank reached US$176.7 billion, ranking 5th among listed banks in the world. The Bank had a network of 14,925 branches and sub-branches in Mainland China, maintained many overseas branches as well.[8]

CCB Sydney Representative Office was set up in November 2007. In August 2010, APRA approved China Construction Bank Corporation as a foreign authorized deposit taking institution, authorizing it to carry on banking business in Australia. The major services include wholesale banking business in Australia, including corporate lending and deposit, international settlement, trade finance, currency etc. CCB also has Melbourne and Brisbane offices in operation.[9]

iii. Bank of China

Operating in Australia for over 20 years, Bank of China has experienced firsthand the colossal growth and development in Australian financial services. Bank of China Australian Operation now has nine branches throughout Australia, five in Sydney, two in Melbourne, one in Perth and one in Brisbane.[10]

iv. Agricultural Bank of China

Agriculture Bank of China (ABC) is one of the major integrated financial service providers in China, the Bank is committed to catering to the needs of Sannong and capitalizing on the synergy between the Urban Areas and the County Areas. ABC had 23,612 domestic branch outlets at the end of 2014 and overseas branch outlets consisted of eight overseas branches and two overseas representative offices. In 2014, the Bank was included in the list of Global Systemically Important Banks for the first time. The Bank ranked No. 47 in Fortune's Global 500, and ranked No. 9 in The Banker's "Top 1000 World Banks" list in terms of tier 1 capital.[11]

Agricultural Bank of China Sydney Branch obtained the authority to carry on banking business from APRA in March 25, 2014. The Branch consists of 7 departments including the Corporate Banking, Treasury, Trade Finance, Operations (IT), Risk Management & Compliance, Finance & Accounting and Administration.[12]

v. Bank of Communications

Founded in 1908, Bank of Communications Co., Ltd. (BOComm) is one of the oldest banks in China as well as one of the note-issuing banks in modern China. The Bank was listed on the Hong Kong Stock Exchange in June 2005, the first China based commercial bank of its kind to get listed outside of the Chinese mainland, and on the Shanghai Stock Exchange in May 2007. Bank of Communications Co. Ltd. is a Fortune 500 Company and rated A- by Standard and Poor's and A- by Fitch. In 2011, according to The Banker magazine, the Bank was ranked No. 35 in terms of tier-one capital among the global top 1,000 banks, and No. 24 in terms of profitability. The organization has more than 86,600 employees and approximately 3,000 domestic branches, sub-branches and international offices.[13]

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[6] *http://www.icbc.com.cn/ICBC/About%20Us/Brief%20Introduction/brief%20introduction%20to%20icbc.htm*
[7] *http://www.icbc.com.au/ICBC/en/AboutUs1/SydneyBranch/*
[8] *http://www.ccb.com/en/newinvestor/overview.html*
[9] *http://au.ccb.com/sydney/en/gywm.html*
[10] *http://www.bankofchina.com/au/en/4-15.html*
[11] *http://www.abchina.com/en/about-us/about-abc/Overview/*
[12] *http://www.au.abchina.com/en/branch_profile/*
[13] *http://www.bankcomm.com.au/*

The Bank of Communications Co., Ltd. opened its Sydney Representative Office on July 28, 2009 and its Brisbane office in April 2015. On October 13 2011, the Bank received a Foreign Bank Branch License from the APRA. The Branch is also licensed under the Australia Financial Services regime to provide financial services to wholesale clients only.[14]

vi. China Development Bank

China Development Bank Corporation (CDB) is one of China's two policy banks (the other being Export & Import Bank of China, "Exim Bank of China" for short) and a wholesale lender specialising in providing medium-to-long-term financing facilities. Founded in 1994, CDB has been China's leading financier for its development of infrastructures, basic and key industries. With 37 branches across the country, one offshore branch in Hong Kong, and representative offices in Cairo and Moscow, CDB currently employs a staff of more than 7,000 worldwide. [15]

A team of CDB representatives is based in Sydney to carry work with prospective clients on various projects.

[14] http://www.bankcomm.com.au/index.php/bankcommsydoffice
[15] https://www.idfc.org/Members/cdb.aspx

b. Appendix 2 - “Farmers’ blues lessen as co-ops take off”

Farmers are being urged to turn their best friends and most bitter rivals into business partners by banding together to form more local agricultural co-operatives.

Federal Agriculture Minister Barnaby Joyce told The Australian the only way for farmers to have more power and extract higher prices from major supermarkets, foreign processors and multinational exporters was to own and control more of the food supply chain themselves.

He thinks formal co-operative business structures — or looser co-operative farming arrangements — with groups of farmers collectively owning and sharing farm machinery, processing plants or the marketing of their pooled produce would give farmers more bargaining might.

“Some people don’t like the idea, but just because you believe in co-operatives doesn’t make you a communist,” said Mr Joyce, the deputy leader of the Nationals.

“I work on the simple principle that the further you can reach down the path to the consumer, the greater the returns ... it’s better for the farmer and local community and a co-operative is unambiguously Australian-owned.” Mr Joyce, whose agricultural competitiveness white paper included $13.8 million to encourage co-operatives, collective bargaining and innovative business models, believes the success of Australia’s biggest and oldest co-ops, Victorian-based farmer-owned giant dairy co-operative Murray Goulburn and WA’s $2.1 billion grain handler CBH, must be emulated more often.

It’s a recipe the thriving Sikh community in Woolgoolga, north of Coffs Harbour, has successfully put to the test, since four local farmers joined forces in 2001 to become better blueberry growers.

Satpal Singh was one of them. In 2001, he had 8090sq m of blueberries on his nearby Corindi farm and was struggling to work out how and where to package and sell them, given he could not afford an automated packaging line and produced only a small quantity of fruit for a few months of the year.

The newly-formed Oz Group co-operative now has 97 farmer members around Coffs Harbour, has become the biggest blueberry grower in Australia, runs five packing plants, turns over $50m a year, and employs more than 1000 pickers and packers annually. It runs its own collective farm input and fertiliser business, has its own financial and agricultural advisers for its growers, supplies blueberries almost all year round to the major supermarkets, wholesale markets and exporters from 500ha of covered blueberry bushes, and is expanding at a rate of 25-30 per cent a year.

“It’s just fabulous: we started as a small partnership, turned into a private company and as we kept growing, have found the co-operative model suits us best,” says Mr Singh, an Oz Group director.

“The main thing is the marketing: I’d struggle to sell my blueberries against all the other (farmers) and get a good price, but by joining together we have more fruit all year round and collectively that gives us much more bargaining power.” Oz Group chairman Gurmesh Singh said other benefits were more intangible, such as closer friendships between farming families, financial sponsorship of the local curry festival in Woolgoolga, where the co-op is based, and the frequent sharing of advice, education and new trends.

“We all have our own views but there is a lot of lot of camaraderie too that wouldn’t exist if we weren’t a co-operative,” Mr Singh said. “But innovation and ideas is the biggest thing because when you have 90 people thinking about the best way to solve a problem or do something new, it’s better than just one grower trying to do it alone. ”A new study released this week by the Rural Industries Research and Development Corporation found while national farmer-owned co-operatives remain strong forces in Europe, NZ and the US, they are out of favour in Australia, where “market force” economics dominate.

“Farmers’ blues lessen as co-ops take off” - 10 August 2015 The Australian

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